

## EXPRESS CLINIC



NAME: **PRASUN SINGH, 37**

RESIDES IN: MUMBAI

PROFESSION: REGIONAL HEAD IN PHARMA COMPANY

NET ANNUAL INCOME  
**(₹ 30 LAKH)**

**OTHER DETAILS:** WIFE SWATI (32, HOMEMAKER), DAUGHTER SONAL (5 YEARS) AND SON PRATEEK (2 YEARS)

### STATUS & GOALS

PRASUN WANTS TO HAVE A CLEAR PICTURE OF HIS SPREAD OUT FINANCIAL LIFE. HIS MAIN GOALS ARE TO PROVIDE FOR EDUCATION AND MARRIAGE OF CHILDREN, BUYING A FARM HOUSE, BUYING A SMALL CAR.

### NEEDED

A financial plan that can provide for his goals with adequate returns on his investments.

MONTHLY INCOME (Post Tax) **₹ 2.5 lakh**

NET MONTHLY SURPLUS **₹ 10,000**

### GOALS

IN ORDER OF PRIORITY

**PURCHASE OF A CAR**  
(Inflation assumed: 6 per cent by 2013)  
CURRENT VALUE **₹ 4,00,000** FUTURE VALUE **₹ 4,49,440**

**FARM HOUSE**  
(Inflation assumed: 8 per cent by 2016)  
CURRENT VALUE **₹ 75,00,000** FUTURE VALUE **₹ 1.10 Crore**

**SONAL'S EDUCATION**  
(Inflation assumed: 6 per cent by 2023)  
CURRENT VALUE **₹ 15 lakh** FUTURE VALUE **₹ 47,07,643**

**PRATEEK'S EDUCATION**  
(Inflation assumed: 10 per cent by 2026)  
CURRENT VALUE **₹ 15 lakh** FUTURE VALUE **₹ 62,65,872**

**SONAL'S MARRIAGE**  
(Inflation assumed: 6 per cent by 2031)  
CURRENT VALUE **₹ 10 lakh** FUTURE VALUE **₹ 32,07,135**

**PRATEEK'S MARRIAGE**  
(Inflation assumed: 6 per cent by 2036)  
CURRENT VALUE **₹ 10 lakh** FUTURE VALUE **₹ 42,91,871**

**RETIREMENT PLANNING (2037)**  
(inflation at 7 per cent and life expectancy 80 years)

MONTHLY EXPENSE **₹ 25,000**

FUTURE VALUE (2037) **₹ 5,15,000**

CORPUS REQUIRED **₹ 1.03 crore**

### OBSERVATIONS

Prasun was a spendthrift throughout his life and recently realised he was on the wrong track. His net worth is very low in comparison to his cash flows. He has a few expensive insurance policies one among which, has a premium of ₹ 3 lakh. But now he has drastically reduced his expenses and also started mutual fund SIPs. He is not having much idea about investments; most of his recent savings are lying in savings bank accounts.

### FINDINGS

**BANK ACCOUNT**  
Balance in savings bank is ₹ 16 lakh

**HEALTH INSURANCE**  
Prasun is having a good cover from his company.

**LIFE INSURANCE**  
He is having ₹ 66 lakh sum assured but all of that is through expensive ULIPs where the total premium outgo is ₹ 4.6 lakh per annum.

**LONG TERM INVESTMENTS**  
He has ₹ 8 lakh investment in various Mutual Funds, FDs and NSCs worth ₹ 2.2 lakh. He has also opened a PPF account with an initial ₹ 70,000.

**GOLD**  
He is having gold ornaments of 1 kg but he doesn't want to use them for any of the goals.

**RETIREMENT**  
He would like to have early retirement at age 45 but there are no proper assets available for it.

**LIABILITIES**  
Good part of his financial life is that he is completely debt free.

### RECOMMENDATIONS

**EMERGENCY FUND:** Maintain ₹ 1.5 lakh in savings bank account which can be withdrawn at any time. Keep about ₹ 1.5 lakh in short term funds which can be available to you in three working days.

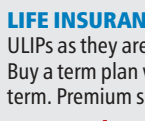
**Express Tip:** As a thumb rule one should have emergency funds equal to 3-6 months of monthly expenses. Too much money in emergency fund can affect portfolio returns.

**SMALL CAR:** He can withdraw ₹ 4 lakh from savings account and invest it in 2 years FD or can



also buy mutual fund Fixed Maturity Plan (FMP).

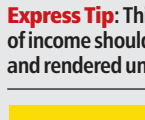
**Express Tip:** Invest in debt for short term goals. FDs and FMPs protect capital, essential when investing for the short term.



**LIFE INSURANCE:** Surrender all your existing ULIPs as they are very expensive and complex. Buy a term plan worth ₹ 1.25 crore for 10 years term. Premium should cost about ₹ 75,000.



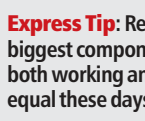
**ACCIDENT INSURANCE:** A policy of ₹ 50 lakh covering temporary total disability and permanent partial disability. Premium: ₹ 6,500.



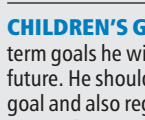
**Express Tip:** Retirement planning is the biggest component of financial planning as both working and retirement period are almost equal these days.



**RETIREMENT PLANNING:** For an income of ₹ 25,000 a month after retirement, he needs a retirement corpus of ₹ 1.03 crore. Invest ₹ 66,000 per month in good mutual fund SIPs.



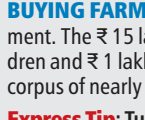
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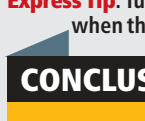
**CHILDREN'S GOALS:** After meeting short term goals he will have ₹ 30 lakh for children's future. He should assign ₹ 15 lakh towards this goal and also regularly invest ₹ 25,000 in PPF & mutual fund SIPs till his planned retirement.



**Express Tip:** Planning for children's future is as important as retirement planning. This has to be done with careful consideration.



**BUYING FARM HOUSE:** Delay this till retirement. The ₹ 15 lakh left after providing for children and ₹ 1 lakh invested monthly can create a corpus of nearly ₹ 2 crore at retirement.



**Express Tip:** Turn to lifestyle goals only when through with basic goals.

### CONCLUSION

If someone thinks about early retirement actually he is targeting for financial freedom - freedom from working for money. To achieve financial freedom one has to do a lot of right things before retreating from active working life.

**PLAN BY: HEMANT BENIWAL,**  
CERTIFIED FINANCIAL PLANNER,  
MEMBER OF THE FINANCIAL PLANNERS' GUILD, INDIA (www.fpgindia.org)

For expert guidance on your financial planning email us your details at [expressmoney@expressindia.com](mailto:expressmoney@expressindia.com)

### LOAN PREPAYMENT

# No charges on foreclosure of home loans to be a reality

Although borrowers will not have to pay prepayment charge on floating rate home loans, some clarity on 'own source of funds' is warranted, says Ritu Kant Ojha

**S**UDHAKAR Raj, a former bureaucrat, took voluntary retirement and decided to buy a house in his hometown, Hyderabad. Since his salary account, fixed deposits and savings were with the State Bank of India (SBI), RK Puram branch, New Delhi, his natural choice to go for a home loan was SBI.

The loan contract mentioned that "A pre-closure charge of 2 per cent of the amount prepaid in excess of normal EMI dues will be levied in respect of pre-closure of loan within 3 years from the stipulated date of commencement of repayment. If the loan is pre-closed from own resources other than borrowings, for which proof is submitted to the satisfaction of the bank, pre-closure charges shall not be levied irrespective of the period for which the loan account has run." Based on his past relationship with the bank and the trust he had in SBI, he applied and got the home loan in July, 2010.

However, little did he know that he would end up paying a huge charge of Rs 45,309 at the time of pre-payment, next year. "Since my fixed deposits with the SBI matured and I had enough bank savings, I decided to repay my home loan this year in July. However, to my horror, an amount of Rs 45,309 was deducted as a foreclosure charge. When I inquired, the branch manager said he is not convinced whether the amount repaid is from my own sources or not," says Raj.

Since the pre-payment was made from the FDs and savings with the same branch, the question of own sources did not arise, believes Raj. After that started the horrendous experience of writing letters and emails to the bank, which went unanswered. Finally, last month he filed an RTI in SBI and is still waiting for the reply even after 28 days out of the 30 day deadline has passed. An email sent to SBI, by The Indian Express, went unanswered. Raj, is one among lakhs of people who go through the tiring process of home loan and many times suffer at the hands of various lenders.

### OWN SOURCES

Almost all lenders have some or the other clause mentioning "repayment through own sources", in their respective home loan contract. "The respective branch manager should be convinced about the source of the funds through which a borrower is repaying a home loan," said a senior Bank of Baroda official. "There is no clear definition of what constitutes 'own sources'. If a person is repaying



CR SASIKUMAR

from his/her bank account through a cheque, there is no need for further investigations by the lender. It results in harassment of a borrower if the respective branch manager is not convinced," says Harsh Roongta, CEO, Apnapaisa.

### PREPAYMENT CHARGES

National Housing Board, issued a circular last October, applicable on housing finance companies like LIC Housing Finance and HDFC, wherein it said, "Pre-payment levy or penalty should not be collected from the borrowers when the housing loan is pre-closed by the borrowers out of their own sources. All HFCs are advised to ensure compliance of the above with immediate effect. Please note that non-compliance with the above advisory may attract penal consequences under the National Housing Bank Act, 1987." However, surprisingly banking sector regulator RBI is lagging behind NHB as far as guidelines on prepayment penalty is concerned as there is no rule by central bank that says that banks cannot charge foreclosure charges. There are some banks that do not charge

any foreclosure charge, if it is done through one's own sources. However, ICICI bank, country's largest private sector bank, charges 2 per cent plus service tax as foreclosure charge on the outstanding amount of loan.

In an indication, which suggested that RBI is mulling scrapping the prepayment charge altogether, whether from own sources or through re-financing. RBI, at the recent Annual Conference on Banking Ombudsmen suggested that banks need not impose any charges for pre-paying loans taken under floating rates by customers. "Floating rate loans pass on the interest rate risk from banks, which are much better placed to manage it, to borrowers and, thus, banks only substitute interest rate risk with potential credit risk," the Ombudsman noted. Though it has come as only a suggestion, banks normally accept RBI suggestions. Toeing the RBI line there was an immediate reaction from NHB chairman and managing director, RV Verma, who said, "We are in discussion with the housing finance companies and would soon bring guidelines to remove prepayment

penalties on all account. There has to be a level playing field and lenders cannot restrict borrowers in a competitive market".

A committee chaired by former Sebi chief, M Damodaran, had suggested in its report said banks should not impose exorbitant penal rates towards foreclosure of home loans and a policy should be devised to ensure that customer is not denied of opportunity to enhance his economic welfare by making choices such as switching to other banks/ financial entities to enjoy the benefits conferred by market competition.

### CUSTOMERS TO BENEFIT

Zero prepayment/foreclosure charges would come as a good news for the borrowers. This means that, whenever implemented, a customer can shift/refinance existing home loan from one lender to another without attracting any penalty, by prepayment. This is also a prudent move, for fresh loans are charged at 10.5-11 per cent, but existing loans taken two years ago have crossed 12 per cent. If your existing loan is charged at 11 per cent interest, it is best to break FDs earning 8-9 per cent to prepay the loan.

However, people like Raj feel helpless when despite the contract, they are penalised.

"Such customers should not lose their morale. They must send a copy of all the communication with their bank along with a copy of the home loan documents to the Banking Ombudsman and demand compensation," suggests Roongta. Detailed information is available on [www.bankingombudsman.rbi.org.in](http://www.bankingombudsman.rbi.org.in) against the banks, and at [www.nhb.org.in](http://www.nhb.org.in) against the housing finance companies.

Even as it is a salutary development, it is yet to be seen whether the lenders devise some other way, like increasing the processing fee, to cover their risk in the form of costs incurred in foreclosure cases. Experts believe that NHB and RBI must make their grievance redressal mechanism more robust and till they do away with the foreclosure charges completely, should come out with clear definition of "own sources of funds" which will help customers take a prudent decision. ♦

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### TAKING WINGS



ASIF UPADHYE

Never Grow Up

ABOUT ME	
Name	Asif Upadhye
Age	31
Hometown	Mumbai
Family background	First gen entrepreneurs
More than 1 company?	No
Education	Masters in Advertising and Communications Management
Graduated from	SIBM, Pune
Former employer	HDFC, HSBC & Barclays
Former designation	Brand & Product Manager
Area of responsibility	Business Management
Favorite book/movie	Book: Wizard of Oz, Movie: Pulp Fiction & Sholay

### MY BUSINESS

Company Name	: Never Grow Up
Founded in	: 2011
Headquartered in	: Mumbai
Company website	: <a href="http://www.willnevergrowup.com">www.willnevergrowup.com</a>
Industry	: Human Resources, Employee Engagement
Stage of the company	: Scaling up
Source of idea	: Consumers and Work Life Experiences

### NUMBER CRUNCHING

	2010	2011
No. of employees	: 0-5	05
No. of locations	: 1	1-3
No. of corporate Clients	: 02	Over 10
Profits	: ₹1-5 lakh	₹10-15 lakh
Turnover	: Under ₹15-45 lakh	₹10lakh lakh
Primary source of initial funding	: Personal Savings	
Primary source of additional funding	: Looking for Investors / Financial Raised institutional	

*National Entrepreneurship Network, a non-profit organisation that supports high-potential entrepreneurs, contributes to this weekly feature*

### MY GAMEPLAN

Never Grow Up is a venture in the field of employee engagement and Fun @ Work. We do this by partnering with HR and business heads through service offerings that include fun workshops, addressing internal communication, reselling quirky merchandise, building reward programmes and even helping people redesign their cubicles/offices. We believe that work can be made fun, and that by taking action and making fun a part of your culture in the workplace, organisations can excel in areas where challenges and problems have been the norm. After all, it is people that run businesses. You take care of them and they in turn, take care of the work.

Over the last one and a half years, we have touched over 300 retail customers through select public workshops and over 2,000 employees across various organisations.

### The best advice I got...

For a start-up like ours, the best advice actually came from a client who advised us to expand our services but to go slow on scaling-up in the first couple of years. That piece of advice has actually helped us make some very important business decisions and fine-tune our products and services.

### The defining moment...

While the inspiration for this venture came from real-life experiences on the corporate front and by listening to problems that employees normally face in an organisation, the defining moment was actually the

day when we got our first client to partner with us - a proof of the fact that companies were willing to invest in our services and found them unique and interesting.

### What keeps me awake at night...

Plans, ideas and never-seen-before concepts. But mostly, the smile on the face of an employee and the feedback we get.

### I thought I would give up...

It took us six months to get our first client. The challenges were immense, especially since this is a one-of-its-kind business idea. Most of our learnings were through trial and error experiments but it really helped us fine-tune our services. The first six months were about unlearning and relearning the ropes of the business, evaluating ideas and then came the real challenge - explaining, and more importantly convincing clients about the services we have to offer. Being a first generation entrepreneur has its days when you feel like it was easier on the other side, but then, we have people and ideas that keep us going.

### My word of advice for others...

I am fairly young in my journey with lots of things to learn; what I can share (based on my understanding) is : the trick to a business idea is to hang in there and play. Obstacles have a way of disappearing when you are looking for solutions. The idea is to keep walking and be OK with making mistakes and facing few defeats before actually seeing the light at the end of the tunnel. ♦